

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-6-G

June 22, 2007

IN RE:)
)
Carolina Gas Transmission)
Corporation f/k/a South Carolina Pipeline)
Corporation – Final Review of the)
Purchased Gas Adjustments (PGA) of South)
Carolina Pipeline Corporation (SCPC) for)
the period ending on October 31, 2006)
immediately prior to SCPC merging with)
SCG Pipeline, Inc., changing its name to)
Carolina Gas Transmission Corporation,)
and becoming an interstate jurisdictional)
pipeline.)
_____)

SETTLEMENT AGREEMENT

This Settlement Agreement (“Settlement Agreement”) is made by and between the Office of Regulatory Staff (“ORS”) and Carolina Gas Transmission Corporation (“CGTC”) f/k/a South Carolina Pipeline Corporation (“SCPC” or “the Company”) (collectively referred to as the “Parties” or sometimes individually as a “Party”);

WHEREAS, by South Carolina Public Service Commission (“Commission”) Order No. 87-1122 dated October 5, 1987, the Commission instituted an annual review of SCPC’s Purchased Gas Adjustment and Gas Purchasing Policies;

WHEREAS, on April 12, 2007, the Commission issued a revised notice of hearing and set return dates for the Final Review of Purchased Gas Adjustment and Gas Purchasing Policies of SCPC;

WHEREAS, the purpose of this proceeding is to review matters related to SCPC’s gas purchasing policies and recovery of its gas costs;

WHEREAS, the period under review in this docket is January 1, 2006 to October 31, 2006 ("Review Period");

WHEREAS, this proceeding constitutes the final review of SCPC's gas purchasing policies and recovery of its gas costs during the time in which the Company offered bundled intrastate natural gas services to South Carolina customers;

WHEREAS, effective November 1, 2006, the Company ceased its merchant services and began providing interstate natural gas transportation services only under the name Carolina Gas Transmission Corporation pursuant to authority granted by the Federal Energy Regulatory Commission ("FERC") and tariffs, rates and terms and conditions on file with and approved by FERC;

WHEREAS, ORS has examined the books and records of the Company and conducted inquiries and analyses related to SCPC's purchased gas adjustment and gas purchasing policies;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of SCPC witnesses Samuel L. Dozier, Michael P. Wingo, John S. Beier, and Thomas R. Conard, without objection, change, amendment, or cross-examination.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witnesses Roy H. Barnette and Brent Sires, without objection, change, amendment, or cross-examination.

3. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the Settlement Agreement reached among the Parties serves the public interest as defined above.

4. The Parties further agree that the stipulated testimony of record will conclusively demonstrate the following: (i) SCPC's gas purchasing policies and practices during the Review Period were reasonable and prudent, (ii) SCPC properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period, (iii) SCPC managed its approved hedging program during the Review Period consistent with Commission orders and, following issuance of Order No. 2006-331 in Docket No. 2006-144-G, SCPC also managed its approved hedging program for the benefit of South Carolina Electric & Gas Company as provided by Order No. 2006-331 .

5. The Parties agree that in light of SCPC's conversion to an interstate transportation pipeline, which is now subject to FERC jurisdiction exclusively, the Company's tariff, rates, charges and terms and conditions of service on file with the Commission are no longer effective or in force. Therefore, the Parties agree that the Commission should cancel, terminate or otherwise revoke in its order the Company's tariff, rates, charges and terms and conditions of service.

6. The Parties agree that CGTC has developed and instituted a comprehensive and equitable plan for the allocation and distribution of any upstream refunds (those currently being held and any future refunds received) related solely to SCPC's intrastate operations prior to its merger with SCG Pipeline, Inc. and transfer to FERC jurisdiction on November 1, 2006. In order to expeditiously distribute any refunds received by the Company, the Parties agree to the following refund mechanism.

- Within thirty (30) days after receiving any refund as described above, CGTC will notify ORS and the Commission of the amount and source of the refund.
- For all refunds less than \$100,000, the refund will be distributed over the cost of gas dollars during the 12 month period of November 2005 through October 2006.
- In the unlikely event CGTC receives refunds greater than \$100,000, the refund will be distributed over the cost of gas dollars during the applicable refund period.
- A refund from either Southern Natural Gas Company or Transcontinental Gas Pipe Line Corporation will be based on percentages of an analysis of throughput of purchased gas dollars based on the following delivery categories:
 - Form 1 (WACOG) (also includes all sale for resale ISP-R and LNG)
 - ISP-R (SCPC industrials)
 - Underground storage/inventory
- Any refund due to the category of underground storage/inventory will be distributed pro rata to those sale for resale customers who received that inventory as of October 31, 2006.

- If a calculation of a refund check to any customer is less than \$50, then that amount will be distributed/refunded pro rata to the remaining customers in that category. Thus, no check less than \$50 will be generated or distributed.
- If a customer is inactive or has left the system, then the amount of the refund calculated for that customer will be distributed/refunded pro rata to the remaining customers in that category.
- Any checks returned or not cashed within six (6) months after issuance and mailing will be considered unclaimed property and escheated to the South Carolina Treasurer pursuant to the South Carolina Uniform Unclaimed Property Act, S.C. Code Ann. Section 27-18-10, et seq.

7. The Parties agree that CGTC has also developed and instituted a comprehensive and equitable plan for the allocation and distribution of any funds received by CGTC as a result of its filing of a claim in a pending class action lawsuit, generally entitled Natural Gas Commodity Litigation, which alleges market manipulation by the defendants named in the lawsuit during the period of July 1999 through December 2002 ("Claims Period"). In order to distribute any funds that CGTC may receive on its claim, the Parties agree that CGTC should distribute these funds to those customers who received price risk adjustments ("PRA") on their bills issued by SCPC resulting from the hedging program during the Claims Period ("Qualifying Customers"), net of any external litigation costs but including any accrued interest, if any, using the following claim funds distribution mechanism:

- Within thirty (30) days after receiving any claim funds due to Qualifying Customers, CGTC will notify ORS and the Commission of the amount and source of the refund.

- The amount of any funds to be paid to any Qualifying Customer will be derived by calculating the total PRA¹ assigned to such customer during the Claims Period as a percentage of the total PRA assigned to Qualifying Customers receiving price risk adjustments during the Claims Period. The formula is as follows:

$$\frac{\text{Total PRA Assigned to the Qualifying Customer}}{\text{Total PRA Assigned to All Qualifying Customers}} \times \text{Amount of Funds Received on Class Action Claim} = \text{The Amount of Claim Funds to be Distributed to the Qualifying Customer}$$

- If a distribution to any Qualifying Customer is less than \$50, then that amount will be distributed to the remaining Qualifying Customers. Thus, no check less than \$50 will be generated or distributed.
- If a Qualifying Customer is inactive or has left the system, then the amount of the claim funds distribution calculated for that customer will be distributed to the remaining Qualifying Customers.
- Any checks returned or not cashed within six (6) months after issuance and mailing will be considered unclaimed property and escheated to the South Carolina Treasurer pursuant to the South Carolina Uniform Unclaimed Property Act, S.C. Code Ann. Section 27-18-10, et seq.

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as

¹ The total PRA will be calculated by adding both additions to and subtractions from the cost of gas for the Claims Period.

a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

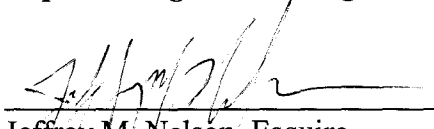
9. This Settlement Agreement shall be interpreted according to South Carolina law.

10. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

(SIGNATURE PAGES FOLLOW)

WE AGREE:

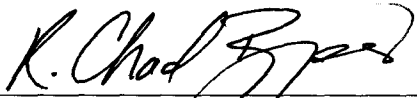
Representing and binding the Office of Regulatory Staff



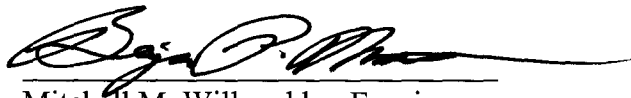
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WE AGREE:

**Representing and binding Carolina Gas Transmission Corporation f/k/a
South Carolina Pipeline Corporation**



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